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## **HG SEMICONDUCTOR LIMITED**

**宏光半導體有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 6908)**

### **DISCLOSEABLE TRANSACTION**

#### **DEEMED DISPOSAL OF EQUITY INTEREST IN THE TARGET COMPANY**

##### **THE CAPITAL INJECTION AGREEMENT**

On 28 September 2023 (after trading hours), the Investor as subscriber, the Target Company, the Project Company, Swift Power (all three of which are subsidiaries of the Company) and Join Gain as guarantors entered into the Capital Injection Agreement, pursuant to which the Investor has conditionally agreed to inject RMB100 million into the Target Company, of which approximately US\$1,672,656.51 (approximately RMB11,860,807.31) will be contributed towards the registered capital of the Target Company, which accounts for approximately 9.0909% of the enlarged equity interest in the Target Company, and the balance will be contributed towards the capital reserve of the Target Company. Upon Completion, the Investor will be interested in approximately 9.0909% of the enlarged equity interest in the Target Company, and the Group's interest in the Target Company (holding through Swift Power) will be diluted from 65% to approximately 59.09%.

As a Condition Precedent, the Company, the Target Company, Swift Power, Join Gain, Red Mont and the Investor will enter into the Shareholders' Agreement, which sets out, among others, the rights and obligations of the shareholders of the Target Company and the governance structure of the Target Company.

## **LISTING RULES IMPLICATIONS**

The Capital Injection constitutes a deemed disposal of the Group's equity interest in the Target Company under Rule 14.29 of the Listing Rules and the Deemed Disposal constitutes a discloseable transaction for the Company under the Listing Rules as one or more of the applicable percentage ratios (as defined under Rule 14.06 of the Listing Rules) in respect of the Deemed Disposal is more than 5% but all of them are less than 25%. The Capital Injection Agreement and the transactions contemplated thereunder are therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

## **INTRODUCTION**

The Board is pleased to announce that on 28 September 2023 (after trading hours), the Investor as subscriber, the Target Company, the Project Company, Swift Power (all three of which are subsidiaries of the Company) and Join Gain as guarantors entered into the Capital Injection Agreement, pursuant to which the Investor has conditionally agreed to subscribe the New Registered Capital at the Total Subscription Price.

As a Condition Precedent, the Company, the Target Company, Swift Power, Join Gain, Red Mont and the Investor will enter into the Shareholders' Agreement, which sets out, among others, the rights and obligations of the shareholders of the Target Company and the governance structure of the Target Company.

## **THE CAPITAL INJECTION AGREEMENT**

Set out below is a summary of the principal terms of the Capital Injection Agreement and the relevant information.

### **Date**

28 September 2023

### **Parties**

- (1) The Investor
- (2) The Target Company
- (3) The Project Company
- (4) Swift Power
- (5) Join Gain

The Target Company, the Project Company, Swift Power and Join Gain are the Guarantors under the Capital Injection Agreement.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, as at the date of this announcement, the Investor and its ultimate beneficial owners are Independent Third Parties.

### **Subscription of new registered capital of the Target Company**

Pursuant to the Capital Injection Agreement, the Investor has agreed to pay the Total Subscription Price of RMB100 million to subscribe for the New Registered Capital of USD1,672,656.51 (approximately RMB11,860,807.31), representing 10% of the registered capital of the Target Company prior to Completion and approximately 9.0909% of the registered capital of the Target Company as enlarged by the Capital Injection.

The Total Subscription Price will be contributed as follows:

- (i) USD1,672,656.51 (approximately RMB11,860,807.31) will be contributed towards the registered capital of the Target Company; and
- (ii) USD12,429,726.79 (approximately RMB88,139,192.69) will be contributed towards the capital reserve of the Target Company.

Upon Completion, the registered capital of the Target Company will be increased from USD16,726,565.11 (approximately RMB118,608,073.20) to USD18,399,221.62 (approximately RMB130,468,880.51).

### **Basis for determination of the Total Subscription Price**

The Total Subscription Price was determined based on arm's length negotiations between the Investor and the Target Company with reference to, among others, (i) the optimistic business prospect of GaN and the semiconductors products of the Project Company; (ii) the fact that the Target Group is at its development stage and accordingly has not yet generated material revenue from its principal business and has been loss-making; (iii) the unaudited net asset value of the Project Company of RMB99.28 million as at 30 June 2023; (iv) the implied intrinsic value of the Target Group amounted to approximately RMB1,100 million (the "**Intrinsic Valuation**") calculated based on the Total Subscription Price dividing by 9.0909% of the registered capital of the Target Company as enlarged by the Capital Injection; and (v) the price-to-net asset ratio based on the Intrinsic Valuation and the unaudited net asset value of the Project Company as at 30 June 2023.

## **Payment terms**

The payment for the Total Subscription Price to be made by the Investor pursuant to the Capital Injection Agreement shall be paid in two installments in cash as follows:

- (i) the first installment of RMB55 million shall be payable within 30 Business Days from the date on which all the Conditions Precedent have been satisfied or waived in writing, or other date and time agreed by the Investor and the Target Company in writing; and
- (ii) the remaining amount of RMB45 million shall be payable within 30 Business Days after satisfaction of certain conditions concerning the procurement of production equipments as set out in the Capital Injection Agreement.

## **Further capital injection right**

Within 90 days after the Completion, the Target Company, the Project Company, Swift Power or Join Gain shall have the right (but not the obligation) to invite additional investor to invest no more than RMB50 million (or equivalent USD amount) in the Target Company on the basis of the Intrinsic Valuation.

## **Conditions Precedent**

The completion of the Capital Injection Agreement is conditional upon fulfilment of, among other things, the following conditions, unless otherwise agreed to be waived by the Investor:

- (a) Transaction Documents: the parties to the Capital Injection Agreement have executed and delivered to the Investor all transaction documents, including but not limited to the Capital Injection Agreement, the Shareholders' Agreement and the new articles of association of the Target Company;
- (b) the Investor has completed the private equity fund filing with the Asset Management Association of China and the Investor's investment decision-making committee or other internal authorities have approved the Capital Injection;
- (c) representations, warranties and covenants: the representations and warranties provided by the Guarantors under the Capital Injection Agreement are true, accurate, complete and not misleading as of the date of Capital Injection Agreement and as of the date of Completion;
- (d) the Target Company or the Project Company has entered into certain labour agreements with their key employees concerning their employment;
- (e) approvals, consents and waivers: the Guarantors have obtained all approvals, consents and waivers necessary for the transactions contemplated under the Capital Injection Agreement;

- (f) third party consents and waivers: the Guarantors have obtained all approvals, consents or waivers (if required) from governmental authorities or third parties for the execution and performance of the transactions contemplated under the Capital Injection Agreement;
- (g) no material adverse effect: there is no event or events with a material adverse effect prior to the date of Completion, and there is no evidence that such event or events that may have a material adverse effect will occur;
- (h) notice of payment: the Target Company has issued a notice of payment to the Investor specifying the information of the receiving account;
- (i) pursuant to the Entrusted Loan Agreement, the Project Company has notified China Merchants Bank (Shenzhen Branch) and Shenzhen Qianyan for the main matters related to the Internal Reorganization between the Project Company and the Target Company; and the Project Company shall obtain the written approval from Shenzhen Qianyan in this regard;
- (j) all procedures with the competent market supervision and management department relating to the Internal Reorganization have been completed, and the Investor has been provided with relevant written evidence;
- (k) Red Mont has paid in full to the Target Company the capital contribution of USD850,000 (approximately RMB6,027,350); and
- (l) the Guarantors have delivered to the Investor a letter of satisfaction to confirm that all of the Conditions Precedent (other than that set out in sub-paragraph (b) above) have been satisfied.

From the date of the Capital Injection Agreement to the date of Completion, the Guarantors shall use their best efforts to procure the Capital Injection to be completed in accordance with the terms of the Capital Injection Agreement. The Guarantors shall take all necessary steps to fulfil the Conditions Precedent (other than that set out in sub-paragraph (b) above).

### **Major post-Completion undertakings of the Guarantors**

Pursuant to the Capital Injection Agreement, the Guarantors jointly and severally undertake to the Investor that:

- (i) the Guarantors shall use its best endeavours and take positive steps to ensure that the Target Group shall meet certain production milestones of the GaN related products; and
- (ii) if required by the applicable laws and regulations and/or competent government authorities in respect of the annual assembly of 80,000 GaN electronic devices and the development project of GaN electronic devices technology, the Project Company is required to perform relevant registration, filing and acceptance procedures and/or obtain relevant qualifications, licenses and certificates in the early stage, construction period and production and operation period of the project accordingly. The Project Company shall complete relevant registration, filing and

acceptance procedures and/or obtain relevant qualifications, licenses, approvals or guidance within the time limit required by applicable laws and regulations and/or competent government departments, and provide relevant supporting documents to the Investor.

In addition, if the Investor waives in writing any one (or more) of the Conditions Precedent pursuant to the Capital Injection Agreement, such waived Condition Precedent shall automatically become a post-Completion undertaking of the Guarantors unless otherwise stated in writing by the Investor, and the Guarantors shall fully perform such obligation within 30 days after the date of Completion or such longer period as may be mutually agreed by the Investor and the Target Company.

### **Completion**

Completion will take place within 30 Business Days after the satisfaction (or, if applicable, waiver) of all the Conditions Precedent or such other date as the parties may agree in writing. Upon Completion, the Target Company and the Project Company will remain as subsidiaries of the Company and the financial results of the Target Group will continue to be consolidated with the Group.

### **Termination**

The Capital Injection Agreement may be terminated at any time prior to Completion under the following circumstances:

- (a) in the event of the occurrence of any of the default events pursuant to the Capital Injection Agreement, the non-defaulting party may terminate the Capital Injection Agreement upon serving a written notice to the defaulting party;
- (b) in the event that prior to Completion, (i) any representation or warranty of the parties contained in any Transaction Documents is untrue or inaccurate in any material respect; (ii) the Guarantors fail to comply with any of the covenants or agreements contained in any Transaction Documents and such failure is not remedied within 30 days of written notice from the Investor, the Investor may terminate the Capital Injection Agreement by serving a written notice to the Guarantors;
- (c) in the event that the Conditions Precedent have been satisfied or waived by the Investor in writing, but the Investor fails to complete the payment of the Total Subscription Price 30 days after the deadline according to the agreed payment schedule pursuant to the Capital Injection Agreement, the Target Company shall have the right to terminate the Capital Injection Agreement by serving a written notice to the Investor;
- (d) in the event that the Capital Injection is not closed within three (3) months after the date of the Capital Injection Agreement or within the extended period as agreed by the parties to the Capital Injection Agreement, the Investor may terminate the Capital Injection Agreement by serving a written notice to the Guarantors, provided that the Investor is not in breach of the provisions of the Capital Injection Agreement leading to the failure of the Completion;

- (e) if any governmental authority promulgates any law or regulation, or issues any order, decree or ruling, or takes any other legal action, to restrict, prevent or otherwise prohibit the transactions under the Capital Injection Agreement, or make the transactions under the Capital Injection Agreement illegal or impossible to complete and if such order, decree, ruling or other legal action is final and not subject to review, prosecution or appeal, any party(ies) under the Capital Injection Agreement may terminate the Capital Injection Agreement upon serving a written notice to the other parties of the Capital Injection Agreement; or
- (f) the parties to the Capital Injection Agreement agree to terminate the Capital Injection Agreement by mutual agreement in writing.

## SHAREHOLDING STRUCTURE OF THE TARGET COMPANY

Set out below is the shareholding structure of the Target Company immediately before and after Completion:

Shareholders	Immediately before Completion		Immediately after Completion	
	Amount of registered capital (USD)	Approximate equity interest in the Target Company (%)	Amount of registered capital (USD)	Approximate equity interest in the Target Company (%)
Swift Power	10,872,267.32	65.0000	10,872,267.32	59.0909
Employee Shareholding Platform	3,514,251.33	21.0100	3,514,251.33	19.1000
Join Gain	1,503,718.20	8.9900	1,503,718.20	8.1727
Red Mont	836,328.26	5.0000	836,328.26	4.5455
The Investor	—	—	1,672,656.51	9.0909
Total	<u>16,726,565.11</u>	<u>100.00</u>	<u>18,399,221.62</u>	<u>100.00</u>

## THE SHAREHOLDERS' AGREEMENT

As a Condition Precedent, the Company, the Target Company, Swift Power, Join Gain, Red Mont and the Investor will enter into the Shareholders' Agreement, which sets out, among others, the rights and obligations of the shareholders of the Target Company and the governance structure of the Target Company.

The Shareholders' Agreement will take effect from the date of Completion.

## **Board Composition**

The board of directors of the Target Company (the “**Target Board**”) shall consist of three directors. The Investor shall have the right to nominate one director to the Target Board based on its current shareholding of the Target Company and two directors shall be nominated by Swift Power. Swift Power shall have the right to nominate two additional directors to the Target Board.

## **Special Rights of the Investor**

### *Most Favorable Treatment*

The Target Company, Swift Power and Join Gain undertake that the Investor shall automatically be entitled to the same preferential rights of any of the original shareholders of the Target Company as entitled under the Transaction Documents (if any), except for the different treatment expressly agreed in the Transaction Documents.

### *Non-competition and Full-time Services of the Key Employees*

The Target Company, Swift Power and Join Gain shall procure the key employees as confirmed by the Investor pursuant to the Capital Injection Agreement to devote all their working time and efforts to the business of the Target Group from the date of the Shareholders’ Agreement, and to use their best efforts to develop the business of the Target Group and to protect the interests of the Target Group.

### *Restrictions on Equity Transfer*

Pursuant to the Shareholders’ Agreement, without the prior written consent of the Investor, Swift Power and Join Gain (the “**Restricted Shareholders**”) and the Employee Shareholding Platform (as procured by Swift Power and Join Gain) shall not directly or indirectly transfer all or part of the equity interest of the Target Company directly or indirectly held by them in any form. Any transfer of shares in violation of the provisions of the restriction shall be null and void, and the transferee shall not enjoy its rights as a shareholder of the Target Company, nor shall the Target Company regard it as a shareholder.

Similarly, without the prior written consent of the Target Company and the Restricted Shareholders, Red Mont and/or the Investor shall not directly or indirectly transfer all or part of the equity interest of the Target Company directly or indirectly held by them in any form to the competitors of the Target Group. Any transfer of shares in violation of the provisions of the restriction shall be null and void, and the transferee shall not enjoy its rights as a shareholder of the Target Company, nor shall the Target Company regard it as a shareholder.



### ***Right of First Refusal***

During the period from Completion to the date prior to the Target Company completes the qualified listing and subject to the above-mentioned restriction on equity transfer, if any Restricted Shareholders transfers its equity interest in the Target Company to any entity, the Investor shall have the first right to acquire such equity interest at the same price and on the same terms and conditions. The Investor as the first right holder may, at its discretion, allocate its preemptive right between itself and its affiliates.

### ***Co-sale Right***

During the period from Completion to the date prior to the Target Company completes the qualified listing and after the Investor, as the first right holder, receives the notice of intention to transfer from the other shareholders of the Target Company and chooses not to exercise its first right, the Investor shall have the right (but not the obligation) to, within 20 days from the date of receipt of the notice of intention to transfer, send the co-sale notice to the Target Company and the proposed transfer shareholders, requesting them to sell the corresponding number of shares of the Target Company owned by the Investor at the same time as the proposed transfer shareholders at the same price, terms and conditions specified in the proposed transfer notice.

### ***Pre-emptive Right***

During the period from Completion to the date prior to the Target Company completes the qualified listing, if the Target Company increases its registered capital, issues new shares, or carries out subsequent financing in the future, the Investor shall have the right (but not the obligation) to subscribe for the newly increased registered capital or new shares of the Target Company in proportion to its capital contribution to the Target Company at the same price and on the same terms and conditions to any remaining shareholders and third parties. The Investor may, in its sole discretion, allocate its preemptive right to which it is entitled between itself and its affiliates.

### ***Anti-dilution***

During the period from Completion to the date prior to the Target Company completes the qualified listing, if the Target Company increases its registered capital or issues new shares or securities convertible or exercisable into equity at the unit price per dollar of registered capital or the unit price per share being lower than the unit price per dollar of registered capital or the unit price per share when the Investor invests in the Company through the Capital Injection, the Investor shall have the right (but not the obligation) to prevent dilution of its shareholding by way of (i) requesting the Target Company to issue the corresponding number of additional shares of the Target Company to the Investor at the lowest price permitted by applicable law; or (ii) requesting the Employee Shareholding Platform or Join Gain to transfer part of their equity interest in the Target Company to the Investor at the lowest price permitted by applicable laws.

### ***Put Option***

In any of the following circumstances, the Investor shall have the right to send a written notice (the “**Repurchase Notice**”) to the Target Company, Join Gain and any other party designated by the Target Company with the consent of the Investor (the “**Repurchase Obligors**”) to request the Repurchase Obligors to jointly and severally purchase all or part of the equity interest in the Target Company held by the Investor (the “**Repurchase Equity Interest**”) at the repurchase price to be detailed below. The Repurchase Obligors shall be obliged to purchase and accept the Repurchased Equity Interest from the Investor within three (3) months after receiving the Repurchase Notice (“**Repurchase Price Payment Period**”) and take necessary actions to complete the repurchase (including but not limited to paying the repurchase price in full and completing all legal procedures such as change registration, filing and approval required for the equity repurchase within such period). The circumstances for triggering the put option are as follows:

- (i) the Target Company fails to complete the qualified listing by 30 June 2030;
- (ii) the Target Company, Swift Power and Join Gain are in material breach of the representations, warranties, undertakings and/or obligations under the Transaction Documents, and any of the Target Company, Swift Power and Join Gain is in material breach of applicable laws and regulations, and such breach has not been remedied and the adverse effects have not been eliminated within 30 days from the date of the Investor’s written notice to them; or
- (iii) except for the termination of labor relations or withdrawal of equity with the consent of the Target Board, more than half of the key employees confirmed by the Investor pursuant to the Capital Injection Agreement have resigned from the Target Group for any reason or no longer provide full-time services for the Target Group or no longer directly or indirectly hold equity in the Target Group, which has a significant adverse impact on the Target Company’s ability to continue as a going concern.

The repurchase price is the sum of 100% of the Total Subscription Price paid by the Investor to the Target Company and the return calculated at the simple rate of 8% per annum of simple interest, as well as the dividends declared but not actually paid to the Investor as approved by the shareholders’ meeting of the Target Company over the years.

The Company would comply with the relevant requirements under Chapter 14 and/or Chapter 14A of the Listing Rules upon exercise of any right under the right of first refusal, the pre-emptive right, the anti-dilution right and the put option mentioned above.

## **INFORMATION OF THE TARGET COMPANY AND THE PROJECT COMPANY**

### **The Target Company**

The Target Company is a company incorporated in the PRC with limited liability. As at the date of this announcement, the Target Company (i) is owned by Swift Power, the Employee Shareholding Platform, Join Gain and Red Mont as to 65%, 21.01%, 8.99% and 5%, respectively and (ii) is the sole shareholder of the Project Company with its major asset being the entire equity interest of the Project Company. The business scope of the Target Company includes manufacturing and sales of semiconductor products and related equipment, manufacturing, sales and design of integrated circuits and related chips, manufacturing and sales of electronic products, computer software, hardware, and auxiliary equipment, provision of technical development services, consultation and promotional services.

### **The Project Company**

The Project Company is a company incorporated in the PRC with limited liability. As at the date of this announcement, the Project Company is wholly owned by the Target Company. The Group has commenced its GaN business through the Target Group and set up a new factory in the Xuzhou Economic and Technological Development Zone which comprised 7,000 square meters ultra clean chambers and 850 square meters office area (the “**Xuzhou Factory**”). It was contemplated that a production line for manufacturing GaN related products would be installed in the Xuzhou Factory, the facilities of which would be further upgraded to full automation in the future.

The Xuzhou Factory has recently started manufacturing its own 6-inch GaN power device epitaxial wafers. It is in the progress of procuring machines and related production equipment and the full production of GaN chip in Xuzhou Factory is expected to commence by early 2024. The engineers of the research and development of Xuzhou Semiconductor will promote the business of the GaN chips by implementing the GaN chips in the circuitry designed for different applications, with an aim to raise the customers’ loyalty

### **Financial information of the Target Group**

The Target Company is a company incorporated in the PRC on 29 June 2023 with limited liability. Given the Target Company has no business activities since its incorporation, it has not recorded any profit/loss from its date of incorporation up to the date of this announcement. As at the date of this announcement, save for the investment in the Project Company which is wholly owned by the Target Company, the Target Company does not hold any material assets and it does not owe any material liabilities.

The unaudited financial information of the Project Company for the two years ended 31 December 2022 and the six months period ended 30 June 2023 prepared in accordance with the generally accepted accounting principles in the PRC is as follows:

	<b>For the year ended 31 December 2021</b>	<b>For the year ended 31 December 2022</b>	<b>For the six months period ended 30 June 2023</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	(unaudited)	(unaudited)	(unaudited)
<b>Net loss before tax</b>	(9,760)	(42,108)	(19,086)
<b>Net loss after tax</b>	(9,760)	(42,108)	(19,086)

The unaudited net assets of the Project Company as at 30 June 2023 were approximately RMB99.28 million.

As the Project Company was still in the early research and development stage for the two years ended 31 December 2022 and the six months period ended 30 June 2023, the net loss after tax was mainly attributable to the research and development staff cost and the software expenditures incurred during the period.

## **INFORMATION OF THE INVESTOR**

The Investor is a private investment fund for equity investment. The general partner of the Investor is Nanjing Jianeng Youchuang Investment Management Partnership (Limited Partnership)\* (南京嘉能友創投資管理諮詢有限公司) (“**NJY Investment Management**”) which is owned as to 51% and 49% by Zhejiang Youchuang (Hangzhou) Private Equity Management Company Limited\* (浙大友創(杭州)私募基金管理有限公司) (“**Zhejiang Youchuang**”) and Henan Huirong Jianeng Innovative Investment Company Limited\* (河南匯融嘉能創新投資有限公司) (“**Henan Huirong Jianeng**”), respectively. The Investor has a total of 4 limited partners.

Zhejiang Youchuang is the fund manager of the Investor and it is owned as to 61%, 20% and 19% by Hangzhou Ziyangdian Investment Management Company Limited\* (杭州子養電投資管理有限公司) (“**Hangzhou Ziyangdian**”), Shenzhen City Zijingang Asset Management Company Limited\* (深圳市紫金港資本管理有限公司), Zhejiang Zheda Qizhen Entrepreneurial Investment Company Limited\* (浙江浙大啟真創業投資有限公司) respectively. Hangzhou Ziyangdian is owned as to 47.54%, 27.87%, 16.39% and 8.20% by Wang Xiaojun (王孝錕), Xie Yu\* (謝瑀), Liu Jianbin\* (劉健斌) and Liu Zuwei\* (柳祖未) respectively.

Henan Huirong Jianeng is owned as to 51% by Harvest Tech Investment Management Company Limited\* (嘉實科技投資管理有限公司) which is wholly owned by Harvest Tech Investment Management (HK) Co., Limited\* (嘉實科技投資管理(香港)有限公司) (“**Harvest Tech Investment Management**”).

## **INFORMATION OF SWIFT POWER, THE EMPLOYEE SHAREHOLDING PLATFORM, JOIN GAIN AND RED MONT**

### **Swift Power**

Swift Power is an indirect wholly owned subsidiary of the Company incorporated in Hong Kong with limited liability and is an investment holding company. As at the date of this announcement, Swift Power is holding 65% equity interest in the Target Company.

### **Employee Shareholding Platform**

The Employee Shareholding Platform is a limited partnership established in the PRC for a proposed employee share incentive scheme of the Target Group to be established for providing certain employees of the Group with opportunities to indirectly invest in the Target Company. Details of the Employee Shareholding Platform were set out in the announcement of the Company dated 20 September 2023.

### **Join Gain**

Join Gain is an investment holding company incorporated in Hong Kong with limited liability which is indirectly wholly owned by Ms. Qin Xiaolu (“**Ms. Qin**”). Pursuant to the disclosure form dated 21 October 2022 (being the latest disclosure form filed up to the date of this announcement) as published on the website of the Stock Exchange, Ms. Qin was interested in 39,085,000 Shares, representing approximately 5.20% of the total issued Shares as at the date of this announcement and Ms. Qin Anqi, a daughter of Ms. Qin, was interested in 100,500,000 Shares, representing approximately 13.38% of the total issued Shares as at the date of this announcement.

### **Red Mont**

Red Mont is an investment holding company incorporated in Hong Kong with limited liability which is wholly owned by Mr. Zhan Haisu (“**Mr. Zhan**”). Pursuant to the disclosure form dated 23 August 2023 (being the latest disclosure form filed up to the date of this announcement) as published on the website of the Stock Exchange, Mr. Zhan was interested in 129,453,785 Shares, representing approximately 17.24% of the total issued Shares as at the date of this announcement.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE CAPITAL INJECTION AGREEMENT AND THE SHAREHOLDERS’ AGREEMENT**

The global market of GaN chips used in third generation semiconductors, which is related to the principal business of the Group, is prosperous in multiple fast-growing industries including: new energy sector, new electric vehicles (“**NEV**”) sector, wireless charging sector, data center power infrastructure sector and 5G infrastructure sector. The Project Company is principally engaged in research and development and manufacture of GaN power chips and GaN radio frequency chips with specialized foundry production capability and research and development capabilities. With its advanced technological capabilities, the Group is able to function as an Integrated Device Manufacturer (“**IDM**”) and maintain complete control over the entire chip-making process, from the production of

semiconductor materials to the manufacturing of chips and devices, as well as module packaging and testing. The present market for NEVs is experiencing a rapid expansion, which has led to a surge in demand from major NEV manufacturers for manufacturing supplies and component parts.

Driven by favourable national policies, extensive downstream application markets and domestic alternatives, the Group continues to operate the third-generation semiconductor GaN business and the applications of related products, and promote full-speed development of all business segments, with a view to achieve breakthrough in domestic alternative technology in the future.

The Group has been moving towards the goal of becoming an integrated device manufacturer enterprise integrating research and development, manufacturing, packaging, packaging testing and sales in the whole semiconductor industry chain. In the first half of 2023, while promoting the third-generation semiconductor GaN business at full speed, the Group also reconstructed its business structure by establishing the Target Company in Shenzhen, to fully utilize the great convenience and advantages of Shenzhen in terms of management, talents and market. Meanwhile, the semiconductor factory of the Project Company located in Xuzhou Economic and Technological Development Zone (徐州經濟技術開發區), Jiangsu Province serves as the pilot plant and production base.

In the new era of extensive digitalization, intelligence and green applications, the global demand for chips remains high. The Group believes GaN is becoming increasingly important in the development of the third-generation semiconductor industry, and its robust development prospects keeps attracting investors.

The Capital Injection by the Investor represents a valuable opportunity for the Group to raise fund in the prevailing difficult market condition for augmenting the Group's production capacity to meet the growing customer demand and enhancing the Group's R&D capabilities for the development of next-generation products. The capital investment in the Target Group through the Capital Injection will be allocated towards the investment in GaN chip projects to foster business growth.

The proceeds from the Capital Injection will be applied to (i) the working capital of the Target Group (including settlement of trade payable under the ordinary and usual course of business of the Target Group); (ii) the Internal Reorganization; and (iii) such other proposed usage to be agreed by the Investor under written approval.

The Capital Injection by the Investor represents a recognition of and confidence in the technological level and future prospects of the Project Company. Upon Completion, the Group will form a strategic alliance with Harvest Tech Investment Management or its associates for the comprehensive business cooperation between each other.

The Directors (including the independent non-executive Directors) are of the view that the Capital Injection Agreement and the Shareholders' Agreement are in the ordinary and usual course of business of the Group after arm's length negotiation between the Group and the relevant parties and reflect normal commercial terms, and that the terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## **FINANCIAL EFFECTS OF THE CAPITAL INJECTION**

As the Capital Injection will not result in the Company's loss of control over the Target Group, the Capital Injection would be accounted for as an equity transaction and will not result in the recognition of any gain or loss in the Company's consolidated statement of profit or loss and other comprehensive income.

## **LISTING RULES IMPLICATIONS**

The Capital Injection constitutes a deemed disposal of the Group's equity interest in the Target Company under Rule 14.29 of the Listing Rules and the Deemed Disposal constitutes a discloseable transaction for the Company under the Listing Rules as one or more of the applicable percentage ratios (as defined under Rule 14.06 of the Listing Rules) in respect of the Deemed Disposal is more than 5% but all of them are less than 25%. The Capital Injection Agreement and the transactions contemplated thereunder are therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

## **DEFINITIONS**

In this announcement, the following expressions shall have the following meanings unless the context requires otherwise:

“Board”	the board of Directors
“Business Day(s)”	a calendar day (other than a Saturday, Sunday or a statutory holiday in the PRC)
“Capital Injection”	the injection by the Investor of capital to the Target Company pursuant to the Capital Injection Agreement at the Total Subscription Price
“Capital Injection Agreement”	the capital injection agreement dated 28 September 2023 entered into between the Guarantors and the Investor
“China Merchants Bank (Shenzhen Branch)”	China Merchants Bank Co., Ltd., Shenzhen Branch
“Company”	HG Semiconductor Limited, a company incorporated in Cayman Islands with limited liability, the Shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 6908)
“Completion”	completion of the Capital Injection
“Condition(s) Precedent”	the condition(s) precedent to Completion as set out in the Capital Injection Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules

“Deemed Disposal”	the disposal by the Group of its shareholding in the Target Company which will be deemed to take place as a result of the Capital Injection
“Director(s)”	the director(s) of the Company
“Employee Shareholding Platform”	Xuzhou Diheng Semiconductor Technology Partnership* (徐州地恆半導體科技合夥企業(有限合夥)), a limited partnership established in the PRC for a proposed employee share incentive scheme of the Target Group to be established for providing certain employees of the Group with opportunities to indirectly invest in the Target Company, details of which were set out in the announcement of the Company dated 20 September 2023
“Entrusted Loan”	the entrusted loan in the principal amount of RMB30 million granted by Shenzhen Qianyan (through China Merchants Bank (Shenzhen Branch)) to Xuzhou Semiconductor pursuant to the Entrusted Loan Agreement
“Entrusted Loan Agreement”	the entrusted loan agreement dated 8 June 2022 entered into between the Project Company, Shenzhen Qianyan and China Merchants Bank (Shenzhen Branch) in relation to the granting of the Entrusted Loan by Shenzhen Qianyan (through China Merchants Bank (Shenzhen Branch)) to the Project Company
“GaN”	the third-generation gallium nitride
“Group”	the Company and its subsidiaries
“Guarantors”	the Target Company, the Project Company, Swift Power and Join Gain
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	party(ies) independent of the Company and its connected persons
“Investor”	台州匯融嘉能友創股權投資合夥企業(有限合夥) (Taizhou Huirong Jianeng Youchuang Investment Management Partnership (Limited Partnership)*), a limited partnership established in the PRC
“Internal Reorganization”	the internal reorganization of the Project Company implemented by the shareholders of Project Company and completed on 30 August 2023 pursuant to which Project Company has become wholly owned by the Target Company, details of which were set out in the announcement of the Company dated 20 September 2023



“Join Gain”	Join Gain HK Limited, a company incorporated in Hong Kong with limited liability, which is wholly owned by Ms. Qin Xialu
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Registered Capital”	the new registered capital of the Target Company in the amount of USD1,672,656.51 (approximately RMB11,860,807.31) agreed to be subscribed for by the Investor pursuant to the Capital Injection Agreement
“Project Company”	Jiangsu Jiahong Semiconductor Co., Ltd* (江蘇鎔宏半導體有限公司) (formerly known as Xuzhou GSR Semiconductor Co., Ltd.* (徐州金沙江半導體有限公司)), a company incorporated in the PRC which is a wholly owned subsidiary of the Target Company
“PRC”	the People’s Republic of China, which for the sole purpose of this announcement excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Red Mont”	Red Mont HK Limited, a company incorporated in Hong Kong with limited liability which is wholly owned by Mr. Zhan Haisu
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Shareholders’ Agreement”	the shareholders’ agreement to be entered into between Swift Power, Join Gain, Red Mont, the Target Company, the Company and the Investor as one of the Conditions Precedent
“Shenzhen Qianyan”	Shenzhen Qianyan Technology Development Company Limited* (深圳前沿科技研發有限公司), a company incorporated in the PRC with limited liability and is an indirect wholly owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Swift Power”	Swift Power Limited, a company incorporated in Hong Kong with limited liability, which is an indirect wholly owned subsidiary of the Company
“Target Company”	Shenzhen Jiahong Semiconductor Company Limited* (深圳鎔宏半導體有限公司), a company incorporated in the PRC with limited liability and is an indirect non-wholly owned subsidiary of the Company
“Target Group”	the Target Company and its subsidiary, the Project Company

“Total Subscription Price”	the total amount payable by the Investor for the subscription of the New Registered Capital, being RMB100,000,000
“Transaction Documents”	the Capital Injection Agreement, the Shareholders’ Agreement, the new articles of association of the Target Company and other legal documents stipulated in the Capital Injection Agreement or the Shareholders’ Agreement in relation to the Capital Injection as signed or previously approved by the Investor
“USD”	US dollar, the lawful currency of the United States
“%”	per cent.

*For illustration purpose, amounts in USD in this announcement have been translated into RMB at the rate of USD1 = RMB7.091. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in USD or RMB have been, could have been or may be converted at such or any other rate or at all.*

By Order of the Board  
**HG Semiconductor Limited**  
**Dr. Xu Zhihong**  
*Chairman and Executive Director*

Hong Kong, 28 September 2023

*As at the date of this announcement, the executive Directors are Dr. Xu Zhihong, Mr. Zhao Yi Wen, Mr. Lyu Xiangrong, Mr. Leung Kin Pang and Dr. Chen Zhen; the non-executive Director is Dr. Wang David Nin-kou; and the independent non-executive Directors are Professor Chow Wai Shing, Tommy, Mr. Li Yang, Mr. Zou Haiyan and Mr. Siu Miu Man, Simon, MH*

*If there is any inconsistency in this announcement between the Chinese and English versions, the English version shall prevail.*

\* *For illustration purposes only*